Our Monetary System

By J. W. ROBSON,
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THE FARMERS' UNION OF CANADA
507 Connaught Block, Saskatoon

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PREFACE

In writing this Pamphlet, I lay no claim to originality. It is as clear and as simple a statement as I can make of how the Revenues of Wealth we create are being counted against us as debt, and the necessity of reform if we are ever to have any measure of democracy or freedom from the autocratic rule of Finance.

I am much indebted to the following authors, whose works I have used and quoted freely: Major C. H. Douglas, Prof. Soddy, Major Powell, and C. M. Hattersley; also to J. S. Woodsworth, Wm. Irvine, and C. H. Spencer for speeches delivered from time to time in the House of Commons.

Far from being a complete utterance on Monetary Reform, this Pamphlet merely scratches the surface. Should its issue lead to an appreciation on the part of the thinking public of the dire necessity of immediate reform and awaken an interest in further study, the time spent by the Farmers' Union of Canada in its compiling will bring its reward.

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"Inversion of Science" . . . . *Prof. Soddy*
"Cartesian Economics" . . . . *Prof. Soddy*

(Note.—The above Volumes and an exhaustive list of Literature on the subject may be obtained from The Credit Research Library, 70 High Holborn, London, England; or ordered through The Farmers' Union of Canada, 507 Connaught Block, Saskatoon, Sask.

Our Monetary System

By J. W. ROBSON

CHAPTER I.

"No one, unless he is drunk with optimism, can deny that the world is very sick; and it may be a sickness unto death."

Canada's Sickness

Canada is part of the industrial world—and she, too, is very sick. Strange that her political doctors admit the disease, but cannot find the cause, that they may apply a permanent cure. Rather do they take particular pride in emphasizing in the press that her ailment is not quite as virulent as that afflicting other nations.

Canada's Doctors

The quietness of the sick-room pervades parliament; and the hush of the attending physicians, who would have Canada still believe in the *laisse-faire* faith cure as contained in an antiquated banking system and fake gold standard consigned to limbo since the Wartime Finance Act of 1914, is broken only by the protests of the few strong natures who would have the government frankly recognize and boldly grapple with their problem.

Premier King's Advice

Premier King, speaking for his government, says, in effect: "What Canada needs is greater production at much less cost." He simply reiterates the old stock-cry, "Produce more! Consume less! Export the surplus!" But plethora and glut choke the world's markets today and bring in their train unemployment and poverty, and not prosperity as he evidently would expect. Consume less! Forsooth, a great admonition to give to the industrial worker of the East working half-time on reduced pay, and to the Western farmer who, for the past four years, has been unable to afford more than the bare necessities of life. Export the surplus! Where? Surely Premier King, who once wrote a book, must know that, in the long run, exports must be paid for by imports. How, then, is a country to buy imports when its consumers cannot pay for what they themselves produce?

Government, Finance, Labor, Farmer

This shows a want of grasp and timidity of thought on the part of our recognized leaders in government; laughable in the extreme, were it not so tragic; a comic opera, were it not for the fact that it enters into our everyday lives and has to be met in terms of effort. From financial circles issues the same advice, coupled with the soul-inspiring assurance: "Lo, my interest is with you alway, even to the end of the age"—which end may be nearer than they suspect. From labor comes the demand for more purchasing power, in higher wages. More wages mean higher prices, and the *status quo* is maintained. The Western farmer—educated to respond to the insistent cry, "Produce! produce!"—is again preparing to acquiesce

with an energy born of despair. The expense since last year's crop—indexed at present at 161—enters into the cost of production of this year's effort; so, to hold his own, he must receive a higher price. A wealth of revenue placed upon the markets of the world, without a corresponding expansion of the currency, means lower prices and a lower purchasing power, debt and destitution.

Owens, Marx, Douglas and Others

The inherent defects in our economic system have been studied out from time to time. Robt. Owens, imagining the middleman was at fault, gave us co-operative factories and stores. But the disease persists. Karl Marx saw, in the profits of the capitalistic manufacturer, the exploitation of labor. His followers of today stress class-consciousness, with the ostensible purpose of effecting revolution and the dictatorship of the proletariat. They would wade through blood to no end, and leave the problem unsolved. Major Douglas, Arthur Kitson, Prof. Soddy, Silvio Gesell and others delve deeper and perceive in our system of finance the basic cause of our ever-increasing economic troubles.

Questions Capable of Solution

Although the questions involved are—particularly to the Western farmer, producing as he does the major portion of the exportable wealth of Canada, or its intermediate product, wheat, to be exported as flour—of an international character, and controlled at present by an International Financiers' Association dominating and dictating to a so-called League of Nations, they are still capable of solution by the nation—if the people are intelligent enough to study and deal with them. The predicament, or *impasse*, in which we find ourselves today, is due primarily to a system subtle in its unseen influences, all-pervading in its powers, which has grown up with, around and through the whole social fabric. Just as a bind-weed twisting around the stalks of a wheat plant hinders the flow of sap which makes fruition possible, this system is killing its benefactor and sustainer—civilization—by choking off, in much the same way, the flow of the circulating medium of the exchange of wealth, which is the lifeblood of the community.

Turns Revenue of Wealth to Debt

In our monetary system of today, we use all the credit power of the nation to produce, and set aside no share of it to consume what we do produce. Economists tell us that a nation lives on what it produces from year to year. This crazy system of ours does not allow those that produce the wealth to consume; but registers against the producer and consumer alike an accumulation of debt "whereby the revenue of wealth is mortgaged permamently in payment of interest to the few who have no earthly use for it." "It is not wealth that is wanted, but money; nor for use, but for usury, until it is needed in the future. Civilization could deluge its creditors in wealth as easily as it deluged its soldiers with munitions, if it was wealth they need and not power over those in their debt."

Makes Instruments of Production Larger

Yearly it makes the instruments of production larger and more efficient, and continually charges the consumer a part of the increased capital cost already collected from him in price, but gives him delivery only of the product.

The Farmer and Railways

It makes the farmer pay for the larger part of the railways in all he buys as a consumer and all he sells as a producer; yet keeps him outside the pale of profit-sharing, and keeps eternally registering against him —"Oh, Lord, how long?"—all past labor vested in the road, spent, worn out, and passed to oblivion.

Cost Accounting: Control of Credit

By its fearful and wonderful system of cost accounting, it controls the price of product to all consumers, and by control of credit and currency, all the farmer sells; makes him carry all risks; and charges him 10 per cent. for the use of his own credit. Then, by deflation, registers that credit against him twice as debt; strips him of his land; or compels him to pay interest on its inflated values in perpetuity—his children and his children's children.

Accentuates Use of Credits

It does not—and cannot—distribute sufficient currency for the ordinary everyday exchanges of the community, and accentuates the use of credits, compelling particularly the farmer to pay large and unnecessary interests—which, due to the very nature of the system, he is unable to pass on to the ultimate consumer. It penalizes him more than any other class of consumer, and as a producer reduces enormously his standard of living.

Government a Borrower

Under it, every government—no matter the credit power of the nation—becomes a borrower instead of a lender, and changes a credit based on the whole productive power of the nation for one based on a very questionable asset of a part, and makes the people pay to the system interest on the transfer. Nor does the matter end there. These loans are injected into the community, appear in price, and are paid for over and over again by the consumer, until finally retired by taxation.

Capital Expenditures Counted as Debt

It carefully counts up the money spent—and a great amount that is not spent—on capital expenditures, railways, roads, factories and innumerable undertakings; and the sums added up are counted as debt, payable by the community—national debts, provincial debts, municipal debts, school debts, telephone debts, mortgage debts, bank debts, implement debts, store debts, bonds, stocks, shares, and individual debts, which the system expects to be paid some day and meanwhile charges interest. The gigantic size of those debts should alone show that there is something radically wrong. Another war—and when the smoke clears, what of the system? It will end like the debtor, who, when asked by his creditor to pay interest, replied, "It is not my principle to pay interest." "Give me,

then, the principal," said the creditor. And the debtor replied, "It is not my interest to pay principal."

In War and in Peace

A system which can only, during the horrors of war, distribute sufficient purchasing power to enable industry to function, and then, in self-protection, is compelled to resort to deflation and inflict on the nation the horrors of peace, surely must be inefficient, antiquated and uneconomic. Systematic inflation is carried on from year to year, until, for want of power to buy, the surplus of goods becomes so great that in an effort to avoid utter collapse and loss of supreme power, war, the universal waster, is resorted to. Since 1920, the cost of living has steadily risen, and will continue till the crash comes. Life is indeed cheap, when such a system can make it subservient to the "palpable absurdities of paper finance."

Deficiencies of the System

Little noted until the end of the war, its deficiencies are from day to day becoming more clear to thinking men. In a few more years at most, it, too, must commit suicide, as the interest charges are growing so large that the revenue of wealth cannot pay them. It is defeating the end and aims of all civilization, and is using "the dread powers of nature—which science has in harness—not to build up worthy of our intellectual and material greatness, but with an enthusiasm reminiscent of a lunatic asylum, to destroy and wreck." It is defeating the end and aim of all industry by refusing delivery of the product to the consumer, for which purpose alone industry can exist. The laws of nature are inexorable; the equation must balance; consumption must equal production, or our civilization—like all others—"swings out to a meaningless apogee, then lapses into darkness."

Excrescences: Legion Their Names

Then there are the excrescences of the system, often more evil in their influence than the thing itself. Legion are their names, and we but mention a few: Watered stock; stock gambling; gambling in the foodstuffs of the nations; combines; mergers; the use of money to grab wealth already produced; sabotage; advertisement; the ca-canny methods of labor now reduced to a science; and our terrible system of debt collection. By it, insult is added to injury; degradation to deprivation. Thus is brought into force the fear of want; that relentless power which changes civility into a hollow mockery, religion into hypocrisy, and patriotism into a sham; "which turns this civilization of ours into an Ishmaelitish warfare, in which the weapons used are deceit and fraud."

Dignity of Labor

If any class believes in the dignity of labor, it is the farmer. He fears not the exertion imposed upon him by the supposed universal curse; but working year in and year out, without any return, is what saps his manhood. This system places him in a tank of water, turns on the main, kindly gives him a pump, and compels him to pump lest he drown; gives him a treadmill, and makes him tread lest he be crushed. Most cases of suicide are directly traceable to it, and 95 per cent. of crime.

It usurps the main prerogative of democracy and establishes a moneyed autocracy; the centralization of power in the hands of the few, elected, not by the people, but by the system. These few men are entirely irresponsible, are anti-public in their policy, produce nothing, yet control all production. It depopulates the rural areas, drives the farmer to the city, with the consequent loss of economic and personal freedom to all labor, fosters overproduction, trade-war, then war to kill.

CHAPTER II.

We cannot, however, begin to understand this monetary system of ours until we grasp:

1. What money is.
2. How it is issued or injected into the social system.
3. The effect of those issues on prices and policy.

What Money Is

Major Douglas defines money as the mechanism with which we deal with things; it has no properties save those we choose to give it. Arthur Brenton, editor of The New Age, whom I have quoted in "An Economic Remedy," says money is a license to acquire goods and services. Since man lives by acquiring goods, money is really a license to live. It is composed (with the trivial exception of coins) of paper and ink, and its intrinsic cost is practically nothing. Money has no value in itself. John Stuart Mill defines money as an order for goods: it is devoid of material value, and only facilitates exchanges of commodities and services that are useful, desirable and valuable. "Money is a highly important part of our industrial machine; it is an instrument created by society through its government, either directly or indirectly, to facilitate the exchange and distribution of the goods that society has produced. It has no value except as it will exchange for actual concrete goods. This exchange value rests entirely on the belief society has as a whole in the power of this money to command other goods. This belief is based on real credit; on society's ability to produce."

Legal Tender

Money has, from time to time, been made out of a variety of materials; gold, silver and paper are those now in general use. The value which money has as money is purely arbitrary, and money is made legal tender by the fiat of government. Fiat money and legal tender are one and the same. "Money is a legal printed decree. It is the stamp of the government which gives it value, and not the substance that receives the stamp, be it gold or silver or paper." It is the authority which makes it current, and gives it power to accomplish the purpose for which it was created—the power to pay debts.

Measure of Value

In the hands of an individual, money is an acknowledgment of debt on the part of the community to that individual; and the debt is not paid until exchanged for commodities desired. It is evident the individual can only buy what is on the market at the time he exercises his purchasing power—or, as it is called, effective demand—much or little as the case may be. So money is also a measure of value (we are finding, to our sorrow, a very unstable one).

Coin: Gold

In Canada, we do not use gold as a circulating medium, although British sovereigns and United States $5, $10 and $20 gold pieces are made legal tender. Some gold coins were minted in 1912; but they are almost entirely divided between the Dominion government and the banks, and held as reserves. Gold does not lend itself as a circulating medium; it wears out too quickly, and is only accepted by banks at its value according to weight. A $20 gold piece short two-fifths weight, would only command $12.00.

Silver

Silver tokens—the real money of the people—in 1922 only amounted to $2.97 per capita. In the opinion of many experts, there never has been enough to facilitate the ordinary everyday transactions of the community. During the large immigration from the U.S., much silver coin was brought in and eagerly used by the people; but the banks made every effort to discredit its use, and finally made a deal with the Dominion government to pay half the cost of shipping the silver back to the U.S. for a term of years.

Silver Per Capita in Other Nations

The U.S. treasury report shows a dollar bill wears out in twelve and a half months; two dollar bill in sixteen months; five dollar bill in twenty months. The smallest amount is most active, and silver coin more active than any note. It was estimated by S. P. Panton, in The Toronto Financial Post in 1916, that the myriad small transactions among the people—which constitute our internal trade—amount approximately to five billion; and all in sums less than one dollar. No country, he says, has too much silver coin; and Canada, a new and developing country, has far too little. The U.S., in 1914, had $7.80 per capita; France $10.56, Spain $13.04, Great Britain (1915) $6.13, Netherlands $11.45, Belgium $6.13, Switzerland $4.90. The newer the country, the more silver coin is needed to keep the people on a cash basis. Silver does not lend itself to manipulation by the banks, and remains in circulation until worn out, when the coins should be immediately renewed by the government and passed back into circulation. There is much silver in Canada, and the government has no excuse for limiting the issue of silver coin; but here, as elsewhere, we see the policy of restriction in vogue.

An important part of our monetary system (for the banks) is the paper currency of the Dominion government. Under the Dominion

Dominion Notes

Notes Act of 1914, the government is authorized to issue notes up to and including fifty millions against a reserve in gold equal to one-quarter that amount; and in 1915 authorized the issue of ten million to the C.N.R. interests, and sixteen million to the G.T.P. without any reserve. Then in 1915, the fifty million was raised to seventy-six million. Anything in excess of this must be secured, dollar note for dollar gold. According to Table 41 of the government year book, in 1922 there were $232,748,411 in circulation. Per capita, this gives $25.96; but on examination of Table 43 we find a joker. The $1 and $2 are for the people, and amount to $31,883,024; while the large sums left are for use between banks only. Then follows the naive assumption "to guard against theft." The circulation per capita stands at $3.56.

Let us examine the composition of the gold reserve upon which the issue of this $232,748,411 is supposed to be based:

Gold Reserve

British coin	$ 26,730,576.20
American coin	67,941,550.
Canadian coin	3,340,650.
Bullion	34,572,503.
	$132,585,279.20

You will notice the last item—Bullion $34,572,503. We do not mint any more gold now; we just dig it out of one hole in the ground and dump it into another hole in the ground to form the so-called basis of our monetary system. The main points to grasp are that the Dominion circulation is issued for the banks, and that the people's needs are a secondary consideration. Since the Wartime Finance Act of 1914, these Dominion notes are not redeemable in gold; and the whole issue is based, not on gold, but on the credit power of the nation.

Incorporation of a Bank

An act of parliament is required to incorporate a bank. A bill is introduced in the commons and senate, and piloted through by a member of each chamber. After the second reading, it is referred to the committee of the house and senate on banking and finance; and once through that ordeal, is pretty safe of acceptance. The bill must contain the names of those seeking incorporation, not less than five in number, who become the provisional directors; the name of the proposed bank, its capitalization and headquarters. If the capital is to be one million or less, each director must own three thousand in stock; if over a million and less than three millions, four thousand; and if over three millions, five thousand.

Starts Business

The act through parliament, subscription lists are opened. These lists are governed by rules and regulations which protect the public interests. When $500,000 has been subscribed, and $250,000 deposited with the minister of finance, a meeting of the shareholders is called, directors elected, and application made for leave to do business. The bank, having started, we shall say, with one million paid up, the minister returns the $250,000

deposited with him, all but $5,000 which he retains for a note circulation redemption fund, on which sum the bank is allowed 3 per cent. Thereafter the fund is adjusted annually to equal 5 per cent. of the average note circulation. This redemption fund, at the present time, amounts to $6,493,593, and is for the speedy retirement of the notes of a failed bank. The fund is then recouped from the assets of the failed bank. The banks do not bear each other's burdens.

Investments

There is no law to say how a bank shall invest its capital. What proportion it shall invest in buildings or securities. These matters are left entirely to the judgment of the bank and the exigencies of the banking business. A certain amount of cash must be on hand at all times to meet daily requirements, and a cash reserve, 40 per cent. of which must be in Dominion notes. However, in bank practice, the proportion of cash and cash reserve to net liabilities remains fairly constant. In 1922, the cash stood at 11.3 and reserves 38.7. The unwritten rule is cash 15 per cent. and reserve 40 per cent.

Special Privilege

The special privilege which the banks have under our monetary system is to issue notes to the amount of the paid-up capital, which stood in 1912 at $125,456,485. So we would expect the note circulation to be the same, but we find in that year $166,466,109 or $18.56 per capita. The extra issue is accounted for by privileges which the banks have under legislation, whereby is established a central gold reserve administered by the Banks of Montreal, Commerce, Royal and Royal Trust Company as trustees. The banks deposit first-class securities and issue their notes against them. Under the Wartime Finance Act of 1914, they obtained the same privilege with the treasury board of the Dominion government. By depositing gilt-edge securities, they obtain Dominion notes, which they in turn deposit with the central gold reserve and issue their own notes. The Treasury Board charges 5 per cent. When the government borrows from the banks, it pays 5¼ per cent. The banks also have the privilege, during the period of crop movement, September 1st to February 28th-29th, to issue excess circulation to the amount of 15 per cent. of their combined capital and rest fund. In the event of war or panic, the government may permit the excess to run all the year, and the banks are supposed to pay the government 5 per cent. for this privilege. The rest, or reserve fund of the banks, amounts to $129,627,270.

Bank Notes

Bank notes in ordinary times are not legal tender. They are, however, redeemable in gold, or in Dominion notes redeemable in gold. Since the Finance Act of 1914, they are legal tender, the same as Dominion notes; and like them, not redeemable in gold.

Bank Notes: Liabilities of Banks

All bank notes are liabilities of the banks, and a first charge against their assets. Banks are the only institutions which make money out of their liabilities. Bank notes are credit instruments, and like the Dominion notes, are based on the credit power of the nation.

We see positively, under the present monetary system, that the maximum amount of money in circulation is fixed. It can diminish, but not increase. The only method available to increase it, under the Bank Act, is to establish more banks, and the present tendency is towards further concentration, thirty banks having given place to eleven. Parliament is "officered by the enemy," and so no new bank can be established without the consent of the Bankers' Association.

Bank Note Issue Limited

The amount of money in circulation, per capita, according to government returns, 1922, is as follows:

Amount of Money Per Capita

	Per Capita
Silver	$ 2.97
Dominion notes	3.56
Bank notes	18.56
Total	$25.09

This does not take into account the amount of monies kept out of circulation by hoarding, or the retiring of the notes of the Home Bank.

In France, in normal times, $65.00 per capita is considered standard; but in a new country like this, $75.00 per capita would be none too much for the needs of the people.

To limit the amount of money in circulation, accentuates the use of credits controlled by the banks, and the interest they command.

Under the system, the only way we have of injecting into, or issuing money to the body politic, is by loans granted by the banks to industry.

CHAPTER III.

Many who have given the monetary system no particular study, let alone thought, might imagine that we have now dealt with the be-all and the end-all. We have spoken of money, what it is and what it does, how it is issued, on what the issue rests, and the legislation that controls the amount of issue. We have shown that only in one way can the community obtain more circulating medium, i.e., by the incorporation of additional banks. We have pointed out how some of the nations with more elastic systems than ours seek to counteract the adverse influences from which all suffer. At best, these are only palliatives, as extra moneys issued enable the banks to further extend credits. These appear in price, accentuate the inflation and correspondingly render the deflation more acute.

What We Have Pointed Out

First of all, we must understand what credit is. Major Douglas defines it as a correct estimate of the rate or dynamic capacity at which a community can deliver goods and services as demanded; and further, in "Credit Power and Democracy," he says: "All credit values are derived from the community regarded as a permanent institution, not merely from the present

Real Credit

generation of workers by hand or brain." (Canada as a growing concern.)

"The rate of production is primarily dependent on the scientific and cultural inheritance of the community." (Education, knowledge, ability and skill.)

On its tools and plant.

On its personnel.

The financial system recognizes these facts by deriving all financial values from credit.

Financial Credit

"Financial credit is ostensibly a device by which this capacity can be drawn upon. It is, however, actually a measure of the rate at which an organization or an individual can deliver money. The money may, or may not, represent goods and services."

Its Power

Peculiarly enough, the whole fabric rests on the word CREDIT as (Latin, *credo*, I believe) shows, on a mental quality, belief or faith, and if the material expression of it, "Financial Credit," was properly understood, used and regulated in the interests of all instead of a few, it would indeed come to be the faith which moves mountains, whether these mountains be symbolized in the communal developments of the nation, or in unemployment, debt and destitution.

Conception of Credit

A farmer, a merchant, a business man or a manufacturer goes to the bank because he believes he can accomplish something; and if the banker, after looking well to the items aforesaid, as outlined by Major Douglas, grants him financial credit, his action is based on behalf of the banker in the applicant's ability to deliver money, where, when, and as required. It also implies an estimate or knowledge, or belief, in the purchasing power of the community. This is very important to remember, as the lack of this power is the cause of the ever-present stringency.

Financial Credit

The manufacturer, wholesaler, merchant, business man or farmer, having given acceptable security to the bank and signed a note, there appears on the bank-book a double entry debtor and creditor, loan and deposit. He is given a cheque-book, and immediately proceeds to make his own money.

What the Banks Loan

We did imagine, not long ago, that banks only loaned out money placed with them on deposit, money temporarily out of use; and the function of the bank was to put out this money at interest, with due caution for the furthering of revenue producing wealth, and we heretofore always conceded the banks the right. We find today that, under the cheque system, which allows the clients to dispense with money altogether in their major transactions—and cheques merely transfer purchasing power from one to another and hardly affect aggregate balances—that the cautious banker has found it quite safe to loan five times as much as his clients possess. In fact, the limit of the power to loan is

set only by the amount of actual money likely to be demanded by the community. A 15 per cent. backing of legal tender is considered more than ample security.

Banks Have Monopoly

The banks have acquired the monopoly of credit issue and credit restriction, and this has naturally come to them from the growth and requirements of industry, and the development of the country under our monetary system. They are the only institution capable of mobilizing the credits required by the ever-concentrating and ever-expanding units of industry. Without a constant supply of this financial credit, industry could not produce or distribute purchasing power, and the whole fabric of society would immediately dissolve. We even see governments pledging national credit for the inferior credit that the banks create, and the people paying interest on the transfer.

The Spending Power of the Public

Let me quote the Rt. Hon. Reginald McKenna, chairman of the London Joint City and Midland Bank, Ltd. Without doubt, Mr. McKenna is the ablest exponent among orthodox bankers of the present monetary system. Speaking on January 20th, he said: "The actual spending power of the public is gauged by the total amount of currency in circulation added to the total amount of bank deposits.

Bank Loans and Deposits

"Let me give a brief illustration of how bank deposits are increased by bank loans. When a bank makes a loan to a customer, or allows him an overdraft, in the ordinary course the loan will be drawn upon, or the overdraft will be made by a cheque drawn by the customer upon the bank, and paid into someone's credit in the same or another bank. The drawer of the cheque will not have reduced any deposit already in existence, because we are supposing a case in which he has been given a loan, or allowed an overdraft. The receiver of the cheque, however, when he pays it into his own account, will be credited with its value, and thereby a new deposit will be created. In the same way, when a bank buys or discounts a bill, the proceeds of the sale are paid into the credit of the seller's account, and increases the total bank deposits; and in the same way also, when a bank buys a war loan, or makes any other investment, the purchase money goes to the credit of somebody's account in some bank, and increases the total deposits."

Banks' Right to Issue Money

To allow the claim that for three per cent. return granted the depositor, the banks have the right to loan their customers' money when out of use, is to establish the principle that they have the right to issue money and withdraw it from circulation according to their own sweet will. The force of the evil effects of this immense power we have felt since 1920.

Now figure out what the Rt. Hon. Reginald McKenna means when he says "the drawer of the cheque will not have reduced any deposit in existence, because we are supposing a case in which he has been given a loan or an overdraft." Does it not mean that we, the people of Canada, believe that the coining of money is a legitimate form of private enterprise; for the effects of this system is the same as if the banks had coined the moneys they loaned. If one man gives another ten dollars, the giver loses purchasing power, the receiver gains; but in this system, the bank does not part with purchasing power—it creates it. Later on we shall see the effect of this on prices.

Issuance of Money a Private Enterprise

We poor benighted sons of toil have, from time to time, been asking for a moratorium; and whatever our successes have been along the individual line, the banks had no difficulty in securing one in 1914. Rumor has it that the acting minister of finance was rushed across the continent by special train to put one in force for the financiers and banks, and this same moratorium is in force today. The credit belief in the banks was at stake—particularly that part of it known as the gold standard, or the ability to redeem in gold, which at best is the worst kind of fake—so the government had to immediately stop it, remove by legislation the false idea, and establish in its place faith, based on the communal real credit. All they did was to remove the gilded false work which dazzled the eyes of the people.

Bank Moratorium

Professor Soddy's strictures on the English system are equally applicable here. "No one knows what the existing monetary system of this country is since the moratorium. It may probably be best described as an unholy alliance between the government and the banks, that whatever happens, they will not let each other down. The most vitally important feature of the country's government affecting the individual fortunes of all, high and low, rich and poor, has been preserved as a sort of mystic cult, made unintelligible except to the initiated, like alchemy once was."

An Unholy Alliance

Deflation of money means a corresponding inflation of the real burden of the national debt, and inflation of the burden of taxation. Yet we have no say in the matter. A finance minister is responsible to the country; but for a mistaken policy, creating no end of debt, stagnation, unemployment, unrest, misery and destitution, a financier goes scot-free. So long as we are stupid enough to leave the control of credit and currency in the hands of private individuals who compose the system, just so long will our democracy be a mere mockery.

Responsibilities

CHAPTER IV.

"Production is a finished science; distribution is one which should offer no unsolved problem."—Soddy.

Were you to ask me who is the most important individual in Canada, I would tell you—the consumer. For him alone exists all this frenzy of production, these enormous capital expenditures incurred from year to year, these scientific processes and discoveries making possible a still further increase of goods at less cost, these enormous issues of currency, which in Canada alone amount to some two billion dollars per month. For him alone exists those vast bands of steel linking coast to coast, and those immense steamships connecting shore with shore. For him the farmer moils and toils from daylight to dark. For him alone have the strongest and most self-reliant nations of the world fought to the death and enlisted the powers of the scientists to help them in their work of destruction—all for the privilege of supplying his wants.

The Consumer

Why, then, is there all this dissatisfaction, bitterness, unrest, class warfare, unemployment, poverty, destitution, misery and crime with us today? It seems a perfect riddle of the sphinx of fate put to our civilization, which not to answer is to be destroyed. "AS LONG AS THE INCREASED WEALTH WHICH MODERN PROGRESS BRINGS, GOES BUT TO BUILD UP GREAT FORTUNES AND TO MAKE STRONGER THE CONTRAST BETWEEN THE HOUSE OF HAVE AND THE HOUSE OF WANT, PROGRESS IS NOT REAL AND CANNOT BE PERMANENT. A CIVILIZATION WHICH CONCENTRATES WEALTH, POWER AND PRIVILEGE, IN THE HANDS OF THE FORTUNATE FEW AND MAKES OF OTHERS MERE HUMAN MACHINES, MUST EVOLVE ANARCHY AND BRING DESTRUCTION." But a civilization is possible in which the wants of all can be more than met. Powers we have in plenty, all we require to do is to adapt means to ends.

Unrest and the Cause

The consumer is short of money tickets (purchasing power), and how to secure for him an adequate supply of the banal thing, is the riddle of the sphinx of fate. Mr. McKenna tells us that the purchasing power of the nation is contained in bank deposits and moneys in circulation. Surely, then, some twenty-three hundred millions should be sufficient to supply the needs of the Canadian consumer. But he tells us more: he says, as money in circulation increases, prices rise.

The Consumer Short of Money

"In any given unit of time, the flow of purchasing power (wages, salary and dividends) to the various individuals connected with industry, is never sufficient to buy the total product of industry produced within that unit of time at the price which manufacturers are, under the present system, compelled to charge."

The Flow Theory

This is called the flow theory; but, unlike many theories, it is easily verified by facts.

A factory has two very distinct functions. The first function is to produce goods. The second is what can be called a financial function, and as the financial function has two distinct factors we can consider them separately as A and B.

A Factory's Two Functions

The first factor of this dual function, which we are considering under A, is to distribute wages, salaries and dividends to employees, which payments form such employees' income and become their purchasing power.

The First Factor

These wages, salaries and dividends are a first charge against the goods produced, and so must appear in costs in a sum exactly equal to the wages, salary and dividends distributed. Let us call these costs A also. Then we have A wages, salary and dividends (income) equal to A wages, salary and dividends (costs). That is to say, sufficient purchasing power would be distributed by the factory to buy all the goods produced by the factory, and our equation would balance. Consumption would equal production, and our machine would run smoothly; there could be no disproportionate or unbalanced production.

A First Charge

But here enters the second distinct factor of the financial function, which we have called B. To distribute moneys in payment of raw materials, bank and capital charges, which payments must also enter into costs and be included in price.

The Second Factor

Now we have to make A equal A plus B. Where does B come from? The credit power of the nation distributed by the banks to industry. If, then, we are now to solve the problem in the interests of the consumer, something must be added to A, which does not at present appear in A; and it must be equal to B, and come from the same source as B—this same credit-power.

Source of B

If the products of one factory cannot be purchased by the wages and salaries distributed by that factory within the same time unit, then it follows that the output of all factories cannot be purchased by the wages, salaries and dividends (total purchasing power) distributed. As a result of this condition, large stocks of unsold goods accumulate and cannot be bought, save by new bank credit or export to foreign countries or by money earned in producing more goods, and this latter further increases the surplus. The world's consumer is set the impossible task of buying articles the total prices of which are much larger than his total income.

The Origin of Surplus

In the light of Major Douglas's analysis, let us see what is the full significance of the statement made by the Rt. Hon. Reginald McKenna, when he says, "If we take the community as a whole, we may be quite sure that as spending power grows, the demand for goods grows with it, and as demand grows, prices rise." Major Douglas says, in discussing overdrafts, that "The important point to notice is that (these) overdrafts are just as absolutely new money as if the banks

Major Douglas's Analysis

had coined it or printed new bank notes for the amount. None of the other clients have the figures of their credit accounts altered by the transaction and the title deeds deposited as security when the overdraft is balanced. This new credit, however, dilutes the purchasing power of all other moneys as soon as it becomes effective as a demand for goods, because, under the financial law of supply and demand, prices equal effective demand; that is, desire to purchase backed by money to buy, divided by the number of articles for sale.

Production Necessary

". . . Production is necessary, and these transactions enable production to take place. . . . From the producing side, it is a good system, although it leaves the bankers the decision as to whether the production is desirable production. . . .

Existing Money Diluted

"Our manufacturer, having got his overdraft, 'gets busy.' More men are taken on at his factory, and at the factories of allied trades, who supply him with intermediate products, and as our British industries would say, there is more employment for everyone. Quite so. But the first thing to note is that all these concerns are distributing purchasing power to individuals in wages, salaries and dividends ahead of production, which causes a rise in the price of existing ultimate commodities—the only thing that individuals buy; or, to put it in the way described above, all existing money is diluted. We see by this method the total purchasing power of the community is increased, but prices rise in exactly the same proportion to the increase, so the community immediately pays for these bank credits just as assuredly as if the money had been extracted from their pockets."

Lead to Inflation

There should be no great difficulty in grasping these fundamentals if we keep in mind and apply our flow theory. Right here, however, I would stress the point that the Woodsworth resolution be passed and the control of credit power be taken from the banks and administered solely for the benefit of the people by a department of government. Without some regulating medium to equate consumption to production (issue of purchasing power and prices), a situation would soon arise which would lead to the inordinate inflation experienced in Germany. The means used would soon defeat the end sought.

The Community Pays for Product and Factory

The second point is that this purchasing power is being distributed in ever-increasing proportion for things which are no use to consumers—capital production, tools, factories, etc. The community is, therefore, producing and paying for real capital as well as ultimate products, and much of the real capital is permanent and survives the lifetime of its producers. The community, however, gets delivery of ultimate commodities only, and this process so further dilutes its purchasing power—already insufficient to equal the total production—that, as a consequence, although the unregulated system of credit-issue and price-making distributes purchasing power in respect of capital production

(tools, factories, intermediate products) and ultimate products (necessaries, services, amenities), it takes back in the prices of ultimate products only, practically the whole of this purchasing power, leaving the community considered as a permanent institution in the position of having bought both the plant and the product, but only having got delivery, i.e., control of the product. To express the matter in a very simple way: The community buys ultimate products—boots, shoes, clothing, groceries, furniture, etc. (but included in the price of those ultimate products is the cost of the factory and machines which produced these), but gets only delivery of the goods, keeps on paying for the capital investment over and over as long as the capital investment exists. This procedure tends to reduce the purchasing power of the community to a point barely sufficient to maintain the accepted standard of living. It makes of democracy a pitiable tragedy.

Revenue of Wealth Charged as Debt

Anyone who can grasp these fundamental errors in our monetary system can easily see how the revenue of wealth produced by the nation is being charged against it as debt. Every new scientific discovery and improved process but accelerates the rate of transfer. The community builds, buys, pays for, but cannot own; and now the statistician comes forward with the comforting assurance that under this system the community's debt doubles every ten years. Canada's debt today amounts to some twelve billions, and on it the consumer is paying five per cent. compounded as it passes from hand to hand in the channels of trade.

Interest

"The physical impossible quality that in our own time has been grafted on money, is that it should bear interest. Though the bits of paper and metal which constitute money remain the same in normal value, however long they are kept, as soon as they are not kept but lent to somebody else, they are supposed to breed their kind with the fecundity of the rabbit—though of the two, the mysteries that surround the reproduction of money are even greater than those concerning rabbits."

What Napoleon Said of Interest

"Every mechanic knows that a perpetual motion machine is impossible, and every scientific man knows that a perpetual motion man is impossible, even as the perpetual motion machine. Under our monetary system, however, perpetual motion men are possible, though—like every other form of perpetual motion machine—it is a trick. The sources of energy are merely concealed. A man might live on a block of gold for a time by chipping off a bit as required, and changing it for wealth. But the gold would then diminish, like soap when you wash with it. But if he lends the same block to the bank, he and his family may live in comfort perpetually on the interest, and he may put a part to accumulate at compound interest for his posterity."

A single cent, drawing compound interest at six per cent., would, in 1,910 years, amount to a sum represented by a solid gold globe five and a half million million million times the size of the earth. A single penny lent at five per cent. in 1492, would amount to a sum sufficient

to make multimillionaires of every man, woman and child on earth. Napoleon, looking at a table of compound interest, remarked, "I wonder this monster has not devoured the whole human race."

Today we do not call it usury, but "capital" investment; and we see it steadily eating like a huge cancer into the vitals of the body politic.

Usury

"It is this interest absurdity which inverts society, turns good into evil and makes orthodox economics the laughing stock of science."

Usury Indefensible

Indefensible morally as usury is, we have grafted it into our monetary system, and nothing short of revolution would eliminate it. Better deal with the devil you know than the devil you don't know. In the same way morally, the community owns every bit of capital investment made for the extension of industry, having paid for it over and over again in price; but to lay claim thereto would be but to again incite revolution and thereby suffer indescribably more than at present.

Solution A Calculation

We have found all along in this inquiry that more money is taken from us than we receive—a paradoxical statement which is, nevertheless, true when the credit factor is taken into consideration. So in practical politics, the solution is simply one of calculation—the money issues must equal these "overhead" charges, no more and no less. The laws of nature and of mathematics are irrefragible, immutable; they cannot be broken and they change not. This, or the reversion to the work of war and destruction.

A Cure

By the use of real credit, civilization has built up a wonderful machine, capable of supplying the wants of every man; but through a flaw in the mechanism, it is unable to perform the work for which it was perfected, viz., to distribute its benefits. As a consequence, the body politic has become diseased, and is full of the putrifying sores of penury, debt and destitution. What we have to do to effect a cure is to inoculate the body politic with the same serum that caused the disease. The very same real credit, correct in dose and properly administered. Much more simple than the complex, inefficient and unjust, totally inadequate and antiquated system which it must displace, its adoption is only, after all, a matter of detail and can take place without destroying one single institution within the body politic.

Some Misconceptions

Before, however, we deal with what is called the just price—which is the mechanism employed to equate consumption and production and the national dividend or right to share of our communal heritage—we shall have to clear away some great misconceptions which have their origin in primitive herd-instincts during the age of penury not long passed.

If we are ever to solve this industrial problem, we must steadfastly bear in mind that the existing machinery of production is, if not 100 per cent. efficient, certainly immeasurably ahead of our distribution system, and that it exists only to produce goods and services for those that need them.

St. Paul's Dogma

We have been educated in—nay, more, we have had systematically instilled and drilled into the belief that work or employment is the only title to goods and services, and that one of the chief functions of industry is to provide employment to those unable to employ themselves. The text used to qualify the belief is usually that of St. Paul: "If ye do not work, neither should ye eat." Whatever St. Paul may have taught as applicable in his age of penury, in the present age of scientific discovery and modern processes, such dogma has no place—particularly when those who use it define work as "something the value of which can be included in costs and collected in price."

Power of the Machine to Produce

In the U.S. there is sufficient machinery to supply the wants of most of the human family, and in Canada we have twenty per cent. more than we need to furnish our present requirements. Our industrial efficiency, according to the estimates of expert authorities, is only five per cent.: not that those in charge do not know how to make it more efficient, but because, under our monetary system, any extra efficiency would make confusion worse confounded by increasing enormously the surplus which we cannot now dispose of, by reducing the amount of purchasing power distributed in relation to the total price of the goods produced and by accentuating unemployment. Suppose the industrial machine were made seventy-five per cent. efficient: this would mean that the present workers, to produce the present results, need only work thirty minutes instead of eight hours per day, or one-fifteenth of the number working eight hours a day could do it. Under a perfected system, there is not employment for one in ten of our present industrial system. Even today, where the machine is working badly, often it is due to the inclusion of too much labor.

The Vicious Circle

In the editorial page of The Toronto Saturday Night, May 16th, under the caption "Where Is Industrialism Leading," appears the following: "Industrialism has reached a point where saturation enters. Manufacturers, in order to prosper, must make people buy more things; and as more things can only be bought with more money, and more money can only be earned by more jobs—which are non-existent—we find ourselves in the midst of a vicious circle, and apparently there is no method by which we can extract ourselves. What are we going to do about it all? Nothing! What can be done? Nothing! These conditions have caused wars; and, no doubt, in due course the struggle for national supremacy in industrialism will cause more wars. Industrialism has done many things besides making people happy."

The Toronto Saturday Night is a strong exponent of the "status quo" and of our present monetary system. Its cure for unemployment is slow death by starvation, or a violent one by war. It tacitly admits that modern scientific progress is the deadly enemy of society, for it seeks to replace the persons who get their living (wages, salary, etc.) in production by new machines and improved processes. It affords to labor ample time to cultivate their souls, but denies them nourishment for their bodies. Half the week it invents new methods to rid them of work, and the other it devotes to a frenzied search for "employment!" If men live to work rather than work to live, then science is mad.

Improved Processes Versus Labor

The Toronto Saturday Night cannot see—and in the present order of things never will see—that the fault lies with the monetary system, which denies all recognition to the social nature of the heritage of civilization, and by its refusal of purchasing power, save on terms, arrogates to a few persons selected by the system, the right to disinherit the indubitable heirs, the individuals who compose society.

Monetary System at Fault

If there is one thing more certain than any other in this weary world, it is that the industrial machine is a common heritage, the result of the labors of generations of people whose names for the most part are forgotten, but whose efforts have made possible the triumphs of the past hundred years. This machine is the communal heritage, and does not belong to the present owners, nor to its operators—labor—but to the consumers, who, representing all society, have an inherent right to both machine and product. The communal real credit made the machine possible, and the consumer pays for it year by year in price of product, but gets no share in the machine.

Our Common Heritage

Men associate together in collective industry because they hope, and are justified in hoping, that there is an unearned increment in association. Less effort means more leisure. More leisure means the lengthening of the lever of the industrial machine by time for design and research work. Leisure is inherent in true democracy, and unemployment is the unfailing sign of progress. Work is not the only title to a share in the goods and services of the community, and if civilization is to advance, must of necessity become an ever-decreasing right to food, clothing and shelter. Year by year, we are taking away from men the burden of toil, and placing it on the backs of machines. Adapt means to ends, and we usher in the golden age of which we have always dreamed, and free the spirit of man for conquests over nature far beyond our fondest hopes.

Our Title to Leisure

The same real credit, which, under the present system, is responsible for unemployment, can, under proper control, banish it completely by means of a national dividend distributed as an equal right to every member of the community, high or low, rich or poor, whether employed or unemployed. The old age pension and unemployment dole are a sub-conscious admission of the principle; but, unlike them, this national dividend would not reduce the purchasing power of the community by taxation. What is an unemployment dole but a national insurance against the evil effects of an inefficient monetary system? With us, the symptoms are acute: better remove the disease than treat the symptoms.

Old Age Pension; Unemployment Dole

H. M. M. says: "The possession of a right to an income as a member of the community by every man, woman and child, apart from what they earn by their labor, would solve several difficult problems. It would put the family man on an equality with the bachelor; it would make women financially independent of their male relatives and enable them to choose their way in life and their partners in marriage, free from ulterior considerations, besides testing the strength of their professed desire to stay in industry. It would provide for the case of the widow and the orphan, the sick, the helpless and the aged, as well as for the man of genius, who does not fit kindly into the economic structure, and for many more. In addition, it would put everyone in the strongest position to resist tyranny from whatever quarter it might threaten.

The National Dividend

Grant the scientific control of real credit in the interests of the consumer, and the same power which has under this system piled up a debt of some twelve billion against the community, is surely strong enough to carry out this most essential and most democratic reform.

How to Obtain It

CHAPTER V

We have seen that our equation cannot balance for the very substantial reason that the whole credit power of the nation is used to aid production and none issued to assist consumption. We have found the financial credits issued to industry coupled with the amount of money in circulation, forms the income or purchasing power of the people, and that its mechanism of distribution is at fault, causing an immediate loss of purchasing power to the community equal to the amount of issue.

What We Have Found

We have found the consumer paying over and over, again and again, for the capital investment in industry and getting delivery only of an ultimate product, and by price fixing, having all costs real and imaginary, together with profits, added on to price. We have had driven home to us that all these untoward powers and privileges, together with the power to charge interest and pyramid it as commodities,

pass through the channels of trade, make our paradox that the outflow of purchasing power is always less than the inflow of prices. In other words, the system continually picks the pocket of the consumer and registers its stealings as debt, thus penalising him for his helplessness and ignorance of the system—which system, by the way, is as little understood by its administrators.

Law of Supply and Demand

There are two points we must clear up before we proceed—the Law of Supply and Demand. We know that the minimum price is fixed unalterably as were the laws of Medes and Persians, namely, at a figure which must include all costs; so the Law of Supply and Demand operates only in the small upper sphere between the minimum price which the consumer must pay, and the maximum price which by all the tricks of the trade he is persuaded or made to believe he has to pay. Anyway, in our system it is a delightfully vague phrase intended to convey the impression that suppliers are competing for a fixed demand. Logically, supply should only be limited by the needs of the community, and demand should be the expression of that need. With us, the Law of Supply and Demand may still operate in that a very limited demand can compete for an equally limited supply.

Era of Trusts and Combines

We are in the era of trusts, combines and monopolies. Each is becoming supreme in its own sphere of activity, and we find all linked together through the financial institutions by interlocking directorates. Merger sinks into merger, and now the whole producing and distributing machinery of industry is under the dominant control of the financiers and the banks who have the last say in regard to policy. The country merchant is selling on a living allowance, his price set by the wholesaler, who in turn is dominated by the manufacturer, and behind all is the subtle unseen influence of the banks. The aim of the banks is safe interest, and that of industry the maximum profit at the minimum cost. The one is complementary to the other.

Appreciation of Capital Within Time Unit

We notice within a time unit of three months, six months, or a year, a very steady appreciation of capital, and with it an immense appreciation of the ability to produce. Every acre broken or summerfallowed, every increase of stock, every new factory erected, every new invention and new scientific discovery, and every ton of coal raised, increase the capacity to produce; so we are bound to conclude that, in Canada at least, where our natural resources are limitless, our capacity or ability to produce is enormous. This capacity is part of our real credit. We also know that under our present system within the same time unit, we produce a large amount of wealth which we do not consume, so export what we call the surplus. Also that we import a certain amount to balance in some measure what we export. Knowing these facts, and bearing in mind the depreciation so consistently charged in price, we get an equation, viz.:

Ultimate goods purchased .. depreciation .. exports .. depreciation of real credit.

Ultimate goods made .. appreciation .. imports .. appreciation of real credit.

The amounts of these items can easily be obtained, and upon their relation to each other rests the amount of real credit which may be advanced to the consumer to supply him with the requisite purchasing power to make our equation balance. Remember this: Real credit is based on what is called potential production or our power to produce goods and services.

The Just Price Formula

If during our selected unit of time we find the gross appreciation of real credit to be, say, the figure 10; the gross depreciation to be 8, then there will be an increase of appreciation of communal real credit of 2 during the same time unit. This appreciation of 2 belongs to the community as a whole, producer and consumer alike, and forms the backing or basis of an issue of financial credit to the producers to compensate them for selling below cost, the only method known of making the equation balance. The 8 represents what is chargeable to the consumers and includes all depreciations as outlined in the A & B formula; and if we charge up the whole amount, we immediately rob the consumer of his purchasing power to the amount of B, and allow the producer to profit at the expense of the consumer by the amount he obtained from the real credit of the community, the sum of B. Remember, the consumer does not consume the plant, but the product; yet he pays for both. The ratio between 8 and 10 is 4–5. That is the ratio between the appreciation of real credit and depreciation of real credit in our unit of time; so what is called the just price, or price factor, would in this case be 4–5 of the figure 8 chargeable to the consumer and 1–5 would be paid as compensation to the producer which issue would be based on the figure 2 of our example. Of course, there is no virtue in the figures used; they are merely comparative; but grasp the fact that even under our monetary system, there is always a large and ever-increasing fund of real credit available with every round of industry or time unit that we have set. Then in a community wherein the financial system is based on real credit, the just price of an article to the consumer bears to the cost of production the same ratio as the gross depreciation of real credit does to the gross appreciation thereof.

The Just Price Worked Out

To make the imaginary figures clearer, we will extend them and say the gross appreciation of real credit or our time unit is 1,000,000, and the gross depreciation is 800,000, and the appreciation of real credit gained by the community is 200,000. The just price is 4–5; then 640,000 of the 800,000 would be paid by the consumer and the treasury board would issue credit or currency to the producers for 160,000, which issue would be secured by the appreciation of communal credit of 200,000.

You will notice Major Douglas has selected the indirect method

of reducing the cost to the consumer, instead of the direct method of increasing his income. The wisdom of the selection is very apparent. A straight issue of money to the consumer at one given time would, besides entailing enormous expense in its distribution, lead to straight inflation, just the same as happens in our present system until checked by the worse evil of deflation, which can only be achieved through wage reduction, unemployment, industrial stagnation, class bitterness, hunger and misery. By the indirect method included in the price-factor, the purchasing power is delivered automatically to the consumer the moment he needs it, viz., when he makes a purchase. The issue of financial credit from the treasury would simply represent in money the expansion in the capacity of the community to deliver goods and services since the last issue. Such issues far from increasing prices, would be a means to reduce them by stimulating production.

Method of Reducing Cost to Consumer

If, owing to the increased purchasing power of the community, there was a marked increase in consumption, which was not met by the same increase in production, then the price factor would increase price till the disproportionate consumption ceased. Also increased production with disproportionate consumption would be regulated by an automatic lowering in price till consumption caught up. The flow of goods regulates the flow of purchasing power or money; and not, as at present, the flow of money controlled by the financier and banks regulating the flow of goods. "Money is the servant, not the master." Today there is no scientific relation between the flow of the revenue of wealth, the amount of money in circulation, any more than there is between the birth rate and a barometer.

Money the Servant, Not the Master

Under such a system, there could be no inflation, for the purchasing power is always present, and the goods are delivered before the issue of financial credit takes place. Starved as the whole community is for goods and services since the deflation of 1920, as industry got into its stride stimulated by adequate purchasing power, the whole tendency would be toward deflation or more goods for the same or less money until the community reached the saturation point, were that possible. Man is not like the ox: he is never satisfied. New vistas open as he advances; the probabilities of yesterday become the possibilities of today and the realities of tomorrow.

There Could Be No Inflation

This granting of requisite purchasing power and price regulation under the new system would completely overcome the withdrawal of purchasing power and the price fixing of the old. It would cut at the root of what the farmers know today as the "Credit System," the roots of which are to be found in this same withholding of purchasing power by the methods shown. Consumption equated to production and a sufficient medium of exchange always available and scientifically adjusted, there could be no need for it. So would pass the

Evils Which Would Be Overcome

twin brothers, Debt Collection Laws and Debt Adjustment; and with them the torture, anguish and misery of which they have been so fruitful. The arch-devil of speculation departs into the bottomless pit where he well belongs. Trusts, combines and monopolies, stripped of their present power to make debt out of the revenue of wealth, and regenerated by proper cost accounting and issue of real credit, become angels of light, and the subtle influence and unseen power as exemplified in the financial interests would be brought into the open and the banks clothed in their right minds become the main instrument in the regeneration.

The Right Angle

We might well stop here and submit what we have written to your judgment, confident of your verdict. But there might be in the mind of the farmer a lingering suspicion that the price factor is not applicable to western farm conditions, because all the arguments and deductions have been made from the industrial standpoint; and while he can no doubt appreciate where they benefit him enormously as a consumer (the greatest consumer in Canada), he does not see how they affect him as a producer and exporter of the main wealth of Canada, for through the production end he gets his income in price of product. The writer being a practical farmer, some may justly think we have approached the subject from the wrong angle.

The Farmer A Wage-Earner

In extenuation of our method, let us point out that, under the present system, the farmer is simply a wage-earner, the same as any factory-hand, and worse off in that he has to bear all the risks of nature and take all chances; while those with whom he deals (the system) deprive him of purchasing power at both ends (consumption and production) more quickly than any other consumer. Consequently, he is the system-lemon cut in two and subjected to the squeezer, first as consumer, then as producer and flung on the national garbage-heap.

How the Price Factor Affects the Farmer

Under the new system, controlled and regulated by the price factor, the farmer's purchasing power is increased in common with that of every consumer. The gain in this alone would be enormous and sufficient in itself to cure most of the ills he suffers, should he retain his low standard of living. Yet the credit-power system is just based on natural law and knows no individual or class, but the good of all. It treats all equally and knows no change or shadow of turning. We have seen in industry how all costs plus profits enter into price and how those are dealt with under the credit-power scheme. The farmer is —and for a long time to come will be—the main producer of our revenue of wealth. Now the credit-power scheme immediately recognizes him as a producer and treats him accordingly. His costs of production are carefully noted, his capital expenditures, his overhead depreciations, his wastes, and an allowance for profit equivalent to that received by the industrial producer. Then the just price or price factor becomes effective. All consumers of his product gain, and the farmer is com-

pensated exactly in the same way as the industrial producer by an issue of financial credit or currency from the treasury.

"But," we hear you say in the words of Nicodemus, "how can these things be? Would not these Leviathans in business still have the privilege, under the new system, of adding on to price sufficient depreciations, just as they do today, to complicate the setting of the price factor, or demand more credits than they are entitled to?" "There is nothing done in the secret chamber but what shall be revealed from the housetop." Long has there been a crying need that companies publish their cost accounts. Under the present system, all charges on capital account, cost of upkeep of plant, depreciation and waste, are charged up to the consumer over and over again long after the original plant has been paid for. Every business man is accustomed to cost accounting; also very many farmers who have to make out income-tax returns whether taxable or not. A different, simpler and more rational system is all that is required. Industry under the new system being run in the interests of the consumer and financed from the treasury of the community, efficiency and elimination of waste make greater gains in lower prices with increased demand.

Cost Accounting

Notice, what the farmer is trying to accomplish through the Wheat Pool, Cattle Pool, Poultry and Egg Pool, etc., is brought to a consummation by another paradox—this time a glorious one—by a reduction of price of farm products, or an increase of purchasing power to the consumer.

Consummation by Paradox

"Then, would you say our efforts in co-operative marketing are being misdirected?" By no means. Co-operation and co-ordination are more essential than ever. Efficiency in marketing leads to reduction in price, and under the credit-power system controlled by the price factor, to an increase in the revenue of wealth and a direct gain to the community.

Co-operation and Co-ordination Essential

With low production costs, whatever Canada exported over and above the utmost need of her own population would be clear gain. The farmer could afford under the credit-power proposals, to donate his surplus to the starving poor of other nations and yet be in a vastly superior position to that he occupies today. The bugaboos of international finance and foreign exchange will, of course, be immediately raised, but on analysis offer no impediment. They are simply matters of administrative detail.

The Power of Low Production Costs

"Nothing is embedded more deeply in the national unconsciousness than that one section of the community can only benefit at the expense of another." And yet we have shown that by a slight change in the basic principle of our Monetary System, all gain; none lose. The powers to produce, which science has in harness, are so vast that if the production could be distributed, no one need want. Give us but a market, cries the

All Gain; None Lose

manufacturer, and we will produce goods without end: yet slim and poor is the fare of the toiling masses, while many who aid production neither by head nor heart, fare sumptuously and need take no thought of the morrow.

The Home Market

In this western country, there is sufficient demand to keep the eastern manufacturer working night and day for the next ten years to supply. An inefficient monetary system compels him to export in fierce competition with other nations who are in the same predicament. Can you imagine a more ridiculous spectacle? The great nations of the world going to war, not to obtain goods, but for the privilege of thrusting goods upon other nations always at a loss to themselves.

A Nation's First Duty

A writer called us during the Great War, "a world gone mad"; and the species of madness which caused the war is still developing unchecked, and one of these days we will run amuck, just because we have not sense enough to reform our Monetary System, even to the extent of issuing bits of paper and metal discs. Today we make life subservient to money, and not money subservient to the needs of our everyday existence. Small as we are in population, we are the premier nation in the production of wealth per head of population. Soon we shall be as poor as any. We work with an intensity and energy born of a miserable necessity, due to lack of knowledge or appreciation of the first principles of democracy—the control of the money power—consequently, all we can produce is debt and more debt. A nation's first duty is to feed, clothe and shelter and provide with the amenities of life every citizen within its borders before it exports one single dollar's worth, and only insofar as it does this can civilization endure.

A Sane, Simple Outline

What we are advancing has no "ism" about it. It is a plain, sane outline of a very simple but imperatively necessary reform without which democracy cannot live. It is your privilege as citizens to enunciate the policy which you entrust to your representatives to carry out. We have already a lead in our democractic way in a resolution moved by Mr. J. S. Woodsworth in the House of Commons:

The Woodsworth Resolution

"That in the opinion of this House, it is not in the interests of the country at large that the privilege of issuing currency and of controlling financial credit should be granted to private corporations."

The Essential Policy

Get behind it with Sapiro enthusiasm. It is not necessary that you understand every detail, any more than you understand the technique of the administration of the Pool. The policy as outlined in the resolution is the essential that is yours; the detail you can safely eave to your administrators.

The question at issue is fundamental: "If democracy stands for a fair deal between the individual and the community, whereby those who produce wealth and carry on the complex system of inter-related services which modern methods of production impose, it need only be the master of and not the slave of money.

Democracy the Master, Not the Slave of Money

"The will to reform is idle without the power, and praying about it will neither bring rain in drought, repair a broken-down binder, motor-car, nor threshing machine; nor make a broken-down money system work. War chaos and revolution will bring democracy down, and the sun will rise on another fruitless oscillation as full of the promise of torture, anguish and oppression as any that history has to show."

The Alternative